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Research report Part 1 – Thematic literature review

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Creating and
capturing value
at *work*:
who benefits?

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 145,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Creating and capturing value at work: who benefits?

Research report

Part 1 – Thematic Literature Review

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This report is the first part of two reports exploring value-creation in organisations:

- Creating and capturing value at work: who benefits? Part 1 – Thematic literature review
- Creating and capturing value at work: who benefits? Part 2 – Measurements report



Foreword

‘This report examines how work generates value, and the capacity for organisations and individuals to benefit from work.’

How organisations create value and for whom are questions that in the fairly recent past have become much harder to answer clearly. The Great Recession, the growth of digital-age business models, and declining trust in corporations mean that the question of ‘who gains from work’ is now one which requires deep political, social, philosophical and academic debate. For the CIPD, this debate is central to our purpose of championing better work and working lives, and as such is an important one for the HR profession to take the lead in.

This report examines how work generates value, and the capacity for organisations and individuals to benefit from work. In doing so, it highlights some real challenges and opportunities the HR profession faces when considering workplaces today. Creating value for financial stakeholders, employees and the community requires a balance which in many complex organisations is hard to reach. With this research we hope to highlight the challenge in understanding this balance, the business models and stakeholders involved, and the kinds of measures we can create to map the outcomes of work.

We are excited by the prospect of debating the ideas and findings surfaced by this work, and we hope that by doing so we will help to develop the important discussion about a future world of work that is beneficial to all.

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Introduction

The creation of value – through work – lies at the heart of all productive activity. Value is created in a wide variety of domains. In the context of paid work and employment, its creation rests largely with the organisational activities of workers/employees, managers and entrepreneurs. There are a number of academic, practitioner and policy debates that focus on how value is created – most recently in the areas of human resources management (HRM), related to high-performance work systems, performance and productivity, and workplace innovation (Guest et al 2012, Oeij et al 2017). Central to these debates is the role of effective acquisition, deployment and development of human capital in how and how much value is created, as well as the role and impact of organisational leadership and governance, and managerial approaches and practices, on value-creation outcomes.

However, few of these debates link analysis of the creation of value to how value is captured and by whom. In discussing the value process, clarity of terminology is important, not least because what constitutes value can be contested. Value is commonly understood as ‘worth’; however, not everything of value has an economic worth. Domestic labour in the family creates value but it rarely delivers realisable economic value, though it undoubtedly contributes to value-creation in firms and in society. Our focus in this report is on realisable economic value.

In the business context, value at its simplest level can be defined as the excess of benefits or

returns relative to the producer’s costs (money, time, and effort). Value-creation is an important part of an integrated process. It is developed through organisations and the work of employees and entrepreneurs. However, value can also be extracted (for example through disposal of assets) or captured through income flows between individuals and groups from the existing pool of value-added against which stakeholders make competing claims for wages, investment or distribution to shareholders (Froud et al 2014, Mazzucato and Shipman 2014). Therefore, value should be treated as the flow of firm and inter-firm resources, subject to discourses and practices of capture by competing and co-operating economic actors.

For the private sector, value is created in firms and realised in markets. Understanding these processes fully requires an appreciation both of their distinctiveness and of how these processes are connected. A largely separate set of debates engage with the issue of value-capture, dominated in recent times by a focus on maximising shareholder value (MSV) as the predominant approach to value-capture as well as critiques of MSV and its consequences. Maximising shareholder value is not the only approach to value – not least because many organisations have no shareholders or, where they exist, shareholders are not homogenous in their behaviour. But MSV not only dominates the discourse on value; it also generates and disseminates

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‘Value is delivered through business models that both reflect and shape value-creation and capture, yet these offer few openings to HR professionals to engage in discussions about value at an organisational level.’

a language, concepts and practices that influence debates and behaviours in firms and organisations where MSV is not predominant, thus increasing its reach and impact beyond large financialised corporations into other sectors, sizes and types of organisation.

Yet there is significant potential in a broader and more holistic conception of value that takes into account individual and society impacts (KPMG 2014). A range of relevant debates exist that highlight societal impacts of the value-creation process, including those on environmental sustainability, corporate social responsibility and ethical/values-driven or purposive organisations. Similarly, a number of existing debates highlight individual impact – negatively, in terms of the costs to individuals of the types of ‘bad jobs’ often associated with particular value approaches, and positively in debates that recognise the value-creating role of employees unleashed through good-quality jobs and enabling and facilitating management. Such debates exist, but in comparison with MSV they are diverse and fragmented, spanning for example human asset accounting and debates around inclusive growth, to illustrate but a few.

Acknowledging that academic, policy and practitioner literatures around value are largely divided between value-creation and its capture should stimulate a mature and long overdue discussion that promotes greater integration, acknowledging the separate and distinct processes of value-creation and extraction/capture while examining the relationship between the two in varied organisational contexts and analysing how these processes

are reflected in business models, strategies and organisational or firm-level practice.

Crucially, any analysis of value should acknowledge that employers can and do make choices in defining their value proposition. They do so by adopting business models that have implications not only for how value is defined and recognised and for the ways in which human, social and intellectual capital (IC) is attracted, developed and maintained in the process of value-creation, but also for who shares and how in value-capture. Value is delivered through business models that both reflect and shape value-creation and capture, yet these offer few openings to HR professionals to engage in discussions about value at an organisational level. Put simply, while HR debates and practitioners acknowledge the importance of human capital and people strategy, and how these relate to value-creation, these are rarely linked explicitly to value-capture. These choices, however, are constrained significantly by macro-structural economic, regulatory and political influences that support shareholder value pressures and priorities. Debates on value are, therefore, largely focused at a macro level and are economic in orientation. Yet a robust understanding of value needs to transcend distinct academic disciplines and there is considerable potential in synthesising insights from political economy, accounting and employment relations perspectives.

This review aims to stimulate a broader and more integrated debate on value-creation and capture and their implications for organisational practice. It addresses the need to analyse

any relationship between value-creation and capture in examining the impact of the value process on organisational governance, leadership and management, work and employment, and HR practice. Consequently, this review spans a broad terrain. It is structured as follows.

This report (Part 1) focuses on understanding and analysing value. Section 1 introduces value systems in organisations as processes of value-creation, realisation and capture. Section 2 outlines the dominant shareholder value perspective and less prominent stakeholder value perspectives. Drawing on these models, Section 3 sets out our thoughts on how to integrate existing discussions of value and to make these meaningful in a workplace context. Section 4 illustrates our approach to analysing value in relation to business models by examining a number of 'ideal type' examples of business models in practice. Section 5 considers the implications of approaches to value-creation for organisational leadership and governance.

Section 6 assesses the relationship between value-creation and associated business models on the one hand, and organisational approaches to compensation and reward on the other. We conclude Part 1 with summary reflections in Section 7.

The second report (Part 2) focuses on measuring and reporting on value. It develops our analysis in relation to contemporary discussions of current and potential future metrics, including HR metrics in Section 1, accounting metrics and, in particular, on the potential of integrated reporting, in Section 2, and on the macro-level metrics relevant to value in Section 3. Throughout Part 2, we attempt to signal alternative perspectives on creating and capturing value.

We conclude Part 2 with a synthesis of the preceding discussion and some reflections on possible policy and practice interventions in relation to the value process emanating from the more holistic approach that we have proposed.

1 Value systems in organisations

‘Recent years have seen growing interest in inputs into the value process in relation to intellectual capital.’

To frame our discussion of value in private organisations, we pose a simple systems model comprising inputs, transformation processes, outputs and outcomes. A variety of inputs or capitals (financial, human, intellectual/knowledge and social) are brought together in a firm and undergo a range of transformation processes in which value is created. This value is realised in the marketplace and then captured or distributed in the form of wages, investment, dividends and retained profits, while also creating a number of proximate and less proximate, direct and indirect, non-financial and financial outcomes for a broad group of stakeholders with some connection to the firm. These include work experience, skills development and health outcomes, for example, for workers, and wider externalities for citizens and society, including tax revenues and pollution.

Academic analyses of the value system tend to focus on its distinct elements, reflecting disciplinary orientations. Sociologists and scholars of work and employment focus heavily on the inputs to the system and the operation of transformation processes. Scholars of accounting, economics and finance focus more on the outputs and, to a lesser extent, the outcomes of the value system.

Intellectual capital

Recent years have seen growing interest in inputs into the value process in relation to intellectual capital (IC) in particular, broadening longstanding debates on human capital in light of developments in information

technology and knowledge-based businesses. Definitions of intellectual capital have adopted wide views of forms of knowledge in organisations, including not only the outcomes of knowledge-intensive work, such as IP and patents, but also the tacit potential of organisational actors.

The OECD describes intellectual capital as the *‘economic value of two categories of intangible assets of a company: (1) organisational (“structural”) capital; and (2) human capital’* (Petty and Guthrie 2000, p158). Structural capital refers instead to proprietary software systems, organisational processes, systems, databases, patents, IP, distribution networks and supply chains (Petty and Guthrie 2000). Human capital, at the level of the organisation, encompasses not only skills and expertise but also motivation of the human resources within the organisation – such as the knowledge, skills and abilities of staff, but also of the wider network accessible to the organisation, namely customers and suppliers. Other studies of intellectual capital have included relational capital, that is, the network of relationships on which the organisation draws (Kianto et al 2014).

Value-creation

The existence of these forms of capital in an organisation does not explicitly mean that they can be – or are – automatically exploited/exploitable by the organisation in value-creation. Rather, *‘such capital exists and can be considered an asset or a resource available in the organization, and that it can*

be potentially useful in value creation' (Kianto et al 2014, p364). Therefore, how these assets are developed, managed and deployed are crucial components for value-creation.

While this rising interest in capitals reflects increasing recognition of the role of human and intellectual capital in value-creation, such recognition does not often feed through into discussions of value-capture. Petty and Guthrie (2000) note that intangible assets in organisations, such as staff competencies, customer relationships, models and computer/administrative systems, receive no recognition in the traditional financial and management reporting models. This is arguably in contrast to the expenditures of processes and practices associated with the development, maintenance and exploitation of these assets – for example through training, development and reward structures.

Importance of an integrated perspective

While the value process in organisations is integrated, much of our analysis and understanding of this process is discrete. This has real implications for day-to-day practice in organisations, particularly in relation to how people are managed. Focusing on human capital in the value-creation process to the relative

exclusion of its role in value captured undermines the '*required degree of stability and capacity for investment in firm-specific assets*' to nurture and harness talent through high-performance work systems (Thompson and Harley 2012, p1373). We argue that the distance between debates on human capital and on value-capture have, in recent years, expanded as shareholder value perspectives have gained ground over other conceptions of the business organisation. Understanding how this has arisen, and its implications for how value is defined and measured, necessitates analysis informed by a range of disciplinary perspectives and which addresses the value process as a whole.

2 Contrasting perspectives and practices

Human capital and beyond

The simple system outlined above conceals a plethora of research and debate. Human capital as a source of value for firms (and for individuals) has arguably been the dominant debate at an academic, policy and practitioner level for many decades (CIPD 2017a). The classic claim that ‘people are our greatest asset’ and the main source of competitive advantage is an implicit statement about the relationship between human capital and value-creation (Pfeffer 1994, Becker et al 1997).

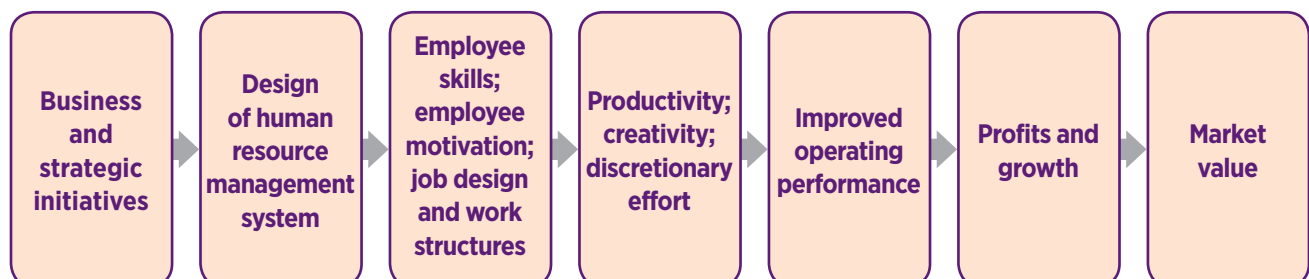
The role of HRM

There have been substantial debates in the areas of HRM, strategic HRM, and in the field of management – particularly related to resource-based views (RBV) of the firm which have argued that the knowledge and skills of the organisation’s employees are a source of sustained competitive

advantage (Barney 2000, Barney et al 2001, Løwendahl et al 2001). Among some scholars, this has led to an increased interest in, and focus on, the management of intellectual capital and organisational learning processes. These scholars argue that HRM and HR practitioners have a central role in the design and development of processes that attract, motivate, and develop the valuable and rare skills and abilities of employees (Boxall and Purcell 2000).

There is also a diverse and established literature which explores the links between workplace practices aimed at maximising and optimising the human, social and intellectual capital of the workforce. These literatures include high-performance work systems (for example Appelbaum et al 2000) and theories of dynamic capabilities (Teece et al 1997),

Figure 1: A model of HR – shareholder value relationship (reproduced from Becker et al 1994, p40)



focusing on the potential to align the efforts and motivations of workers with organisational and managerial changes that improve efficiency through more effective deployment of (often skilled) human capital (Ichniowski et al 1996).

Value-capture

While few commentators doubt the importance of human and intellectual capital to value-creation, such perspectives have little to say about value-extraction and capture. For example, as Petty and Guthrie (2000) note, these intangible assets in organisations, as well as the relationships with customers and internal technical and social systems, receive little to no recognition in the traditional financial and management reporting models. Rather, these systems and the costs associated with acquiring, developing, maintaining and deploying these assets are instead considered as expenditures – or the avoidance of new expenditures. Acquiring and accumulating knowledge and competencies within the organisation may not be enough. In itself, the stock of knowledge does not create sustained competitive advantage, but rather it is now applied and deployed to create value (Løwendahl et al 2001).

Levels of value and contexts

There is also the issue of unit of analysis. While human capital has tended to be conceptualised from the perspective of the individual (Schultz 1960, for example Becker 1994, p196), individual-level characteristics become aggregated to the organisational or unit level in debates on organisational intellectual capital and intangible assets. However, there has tended to be a lack of distinction between individual capacities which directly influence unit-relevant

outcomes and unit-level capacities influencing unit-relevant outcomes (Ployhart et al 2014).

These are examples of definitional and conceptual limitations related to intellectual and human capitals raised in what might be called the ‘internal critique’ and help explain why high-performance practices are a minority of practices utilised in a minority of firms (Godard 2004, Kaufman 2010). However, the limitations of the human capital narrative with respect to value-capture go deeper than this. Naïve optimism also stems from neglect of context and any serious account of the structural constraints on mainstream business models. In an increasingly financialised economy, the dominant metric of ‘best practice’ is ‘most profits’ (Kaufman 2010, Thompson 2011b). We will examine these business models in more detail later. First, we want to examine other literatures that may be better placed to bring something new to explaining the contested relationship between value-creation and capture.

Disciplinary perspectives on value

Insights from a political economy perspective largely address the value process at a macro level, identifying wider structural, ideological and political forces that shape approaches to value and, crucially, who shares in value-capture. Such debates focus particularly (though not exclusively) on exposition and critique of maximising shareholder value (MSV). This approach to value-capture emanates from shareholders’ property rights and principal-agent theory as it applies to shareholders and management control in the interests of shareholders. MSV is largely silent on or indifferent to how value is created so long as its capture is maximised in shareholders’ interests.

The accounting and finance literature, on the other hand, is more closely concerned with value-capture, although this overriding concern has implications for processes and practices of value-creation, for example via management control systems, performance management systems and reward systems. From an accounting perspective, debates on human capital accounting begin to address the relationship between value-creation and capture, while research in social accounting highlights some of the wider ramifications of value processes in businesses.

The broad literatures on work, employment and human resource management are at their essence, and increasingly explicitly, focused on value-creation. From analyses of individual motivation and engagement, through debates on group/team working and contribution, and more recently to debates on the configuration of HR practices that drive business performance, at their core much of the work in HRM is about driving value-creation. However, outside of what are increasingly seen as ‘old fashioned’ or irrelevant debates in the industrial relations tradition, much of the contemporary HRM literature is strikingly silent on value-capture.

Yet value is an integrated process, encompassing the processes of creation, realisation and capture. Therefore, the degree of separation between disciplinary perspectives on value and their distinct emphases on discrete elements of the value process is unhelpful for a broader understanding of value. A broader multidisciplinary lens is required to interrogate the dominant MSV model, and is provided in the sections below.

‘Political economy perspectives draw on the disciplines of economics, sociology and political science to examine the basic dynamics and institutional underpinnings of production and wealth-creation.’

The dominant model – maximising shareholder value

Political economy perspectives draw on the disciplines of economics, sociology and political science to examine the basic dynamics and institutional underpinnings of production and wealth-creation. Such perspectives are, therefore, well placed to illuminate questions of value and work. In this section, we want to focus on contributions made to explain the characteristics and consequences of the maximising shareholder value (MSV) model that has dominated the global economy and firm behaviour in the last three decades.

MSV ideas and practices have their origins in agency theory (Jensen and Meckling 1976, Jensen 1986). This was directed towards reducing perceived managerial opportunism and subjecting them to the discipline of the market, while simultaneously promoting a model of corporate resource allocation based on investor sovereignty (Appelbaum et al 2013).

Conflicts of interest between shareholders and managers over payout policies are especially severe when the organisation generates substantial free cash flow. The problem is how to motivate managers to disgorge the cash rather than investing it at below cost or wasting it on organisational inefficiencies. (Jensen 1986, p323)

This constituted a fundamental challenge to the post-war order of managerial capitalism, in which professional managers were seen as stewards of the large firm on behalf of a variety of stakeholders (Erturk et al 2004). This was not a purely theoretical argument. Economic uncertainty and industrial decline in the 1970s and 1980s gave proponents of investor-

led models powerful leverage to attack management stewardship of the firm, as well as legitimating an active market for corporate control (for example through a wave of hostile takeovers by new financial actors) and a series of deregulatory policy measures in the US, UK and elsewhere (Green et al 2008, Thompson and Harley 2012).

The political economy critique of the dominant MSV model challenges it precisely on the terrain of value. With the emphasis on disgorging cash flow and value delivered to investors, MSV models have a systemic bias towards issues of value-extraction and transfer rather than value-creation (Lazonick and Mazzucato 2013, Mazzucato and Shipman 2014). Agency theory links higher rewards to greater risk-taking by investors, yet underplays the collective and cumulative character of a central source of value-creation – innovation – in which various stakeholders, notably labour and the state, invest without guaranteed returns. The following sub-section examines how shareholder value has typically operated at various levels.

Shareholder value in action

Political economy literatures identify three spheres of socio-economic change associated with the enactment of MSV models: the macro-economic level, meso level of the firm and inter-firm, and the micro level of the workplace.

Macro-economic level

At a macro level, scholars refer to finance-dominated growth or accumulation regimes (Krippner 2005, Stockhammer 2008, Lapavistas 2011). The source of profits shows a clear shift from product markets and production to financial assets, with a growing share of such assets and the profits

of financial corporations relative to GDP. In financialised economies, capital markets move beyond merely an intermediary role to become the main driving force of firm and to some extent state and household behaviours (Erturk et al 2004), with banks and new investment funds such as private equity centre stage. Non-financial corporations (NFC), however, also become financial actors, with more focus on leveraging value from financial extractions and assets compared with the rate of return on operational investment (Milberg 2008, Müller 2013).

Meso level: firm and inter-firm behaviour

As shown in the 2008 global financial crisis, such macro-level regimes have proven unstable, in large part because of their reliance on growth through corporate and household debt. This need not concern us here. A more relevant focus is on research into the meso level – the impact of MSV on firm and inter-firm behaviours. From the early and influential work of Williams (2000) and colleagues, the focus was on the centrality of value-extraction through financial engineering. This takes a number of forms. Firms, often of a conglomerate or portfolio nature, were increasingly treated as bundles of assets, with the more disposable sold off and restructuring through delayering, disaggregation, merger and leveraged buy-out becoming a prominent part of the corporate landscape (Dore 2008). Corporate governance and strategy became increasingly focused on meeting capital market requirements, especially estimations of future performance and the perceived intrinsic value of stock (Cushen and Thompson 2016).

The mechanisms for delivering on these expectations are primarily a variety of valuation factors used by institutional investors (such as return on earnings, price/earnings ratio¹), as well as ‘value-based’ management tools promoted by large consultancies (Williams 2000). One of the valuation factors used by Bank of America/Merrill Lynch (2006) is share repurchase. Lazonick’s (2009) investigations have demonstrated the remarkable degree to which share buybacks have played a key role in boosting equity values. Unsurprisingly, if companies are sitting on cash, distributing it in dividends or buying their own shares, there is less room for the creation of new value through internal, long-term investment in human and physical capital or research and innovation (Orhangazi 2008, Lazonick and Mazzucato 2013, Froud et al 2014). A bias towards a short-term, transactional and speculative approach also tends to undermine the development of relationship-specific investments with customers and other stakeholders across value and supply chains (Appelbaum et al 2013, Parker et al 2017).

We referred earlier to the goal of agency theorists to ‘discipline’ senior managers. However, such coercion has been decidedly beneficial to the corporate layer of management, if not to the corporations themselves. The trend towards a widening of the pay gap between the average worker and senior executives has been widely observed (van der Zwan 2014). What is sometimes less obvious is the role played by stock options and simple payment in stocks in aligning MSV strategies with rewards and executive loyalty (Lazonick 2016).

It has been widely argued that the HR function is perceived by many employees as playing a central role in developing these new reward systems at a time when real wages have been stagnant or declining. This undermines its legitimacy as a broader steward of the social contract (Kochan 2007).

Micro level: the workplace

A third, micro level focusing on how MSV plays out at workplace level has most direct relevance to the work and value theme and any attempt to identify outcomes and mechanisms. Unfortunately, reflecting the disciplinary orientations of political economy literatures, it is the sphere that has received least attention. A key problem of analysis and method has been that we are dealing with multi-levelled structures and practices, where it is difficult to specify cause and effect at the micro level. For example, a comparative collection of studies of restructuring practices and labour outcomes associated with new investment funds in nine countries (Gospel et al 2014) confirmed much of the above analysis of financialised corporate behaviours. However, it is argued that the linkages between the ‘transmission mechanisms’ of shorter time horizons, divestment strategies and shifts in the balance of power amongst stakeholders are largely negative for labour, but indirect.

A plausible indirect link between MSV and negative workplace outcomes was argued in a much-cited paper by Thompson (2003). The focus was on the way that the perpetual restructuring driven by new forms of value-extraction undermined local high-performance, mutual-gain bargains between management

¹ See Section 6 for a fuller explanation of this ratio.

‘That gap between values-led narratives around employee branding and commitment, and the reality of value-extraction based practices shown in case studies is particularly problematic for HR.’

and labour. Such productivity bargains require conditions of job security and investment in skills, reward systems and opportunities that are difficult to sustain under MSV models. The result is a fundamental disconnect between employer objectives of enhanced discretionary effort in the work domain and increased disposability and insecurity in the sphere of employment.

The disconnection perspective has proven to be a fruitful line of further contemporary workplace research (for an overview, see Thompson 2013). That gap between values-led narratives around employee branding and commitment, and the reality of value-extraction-based practices shown in case studies is particularly problematic for HR (Cushen and Thompson 2012, McCann 2013). Clark’s work on the impact of the private equity business model, particularly in the Automobile Association, built on the disconnection theme (see for example Clark 2009, 2011, Clark and Macey 2015). A private equity takeover of the AA led first to pressures to service the debt and dividend payments, and then to targets of ‘managing out of the business’ 3,400 employees.

This shows a direct link between value-extraction and negative labour outcomes. Such links are, perhaps, easier to identify with private equity variants whose business model is heavily reliant on extracting higher than average returns and servicing debt in short timeframes. While this can be achieved in various ways, cost reduction pressures frequently lead to ‘hard’ HR practices, value transfers from worker wages, pensions and benefits, and work intensification (Appelbaum and Batt 2014, Gospel et al 2014).

More recent work by Cushen and Thompson (2016) also tries to identify, if not demonstrable cause and effect relations between financialised practices and labour outcomes, at least a clearer understanding of some of the mechanisms involved. As indicated earlier, emphasis is put primarily on financialised targets that lead to distinctive accounting metrics and measures that can be operationalised through budgeting processes. For example, operational expenditure (or OPEX) reduction is seen as a reliable means of signalling delivery of MSV targets and in turn is associated with headcount reduction, work intensification and tightened performance measures.

Stakeholder models as alternative

Stakeholder theories acknowledge the collective and social context of sustainable business and value-creation in analysing the relationship between firms and society, the role of stakeholders beyond shareholders, their interests and goals, the process by which stakeholder interests are represented in businesses and how value is distributed across stakeholders (Freeman 1984). Stakeholder theory is a theory of organisational strategy and ethics rather than a theory of political economy (Phillips et al 2003). In this, it operates on a similar terrain to discussions of the collective (or triple) bottom line, where businesses can be assessed in terms of the three distinct priorities of economic, social and environmental sustainability.

Differences and similarities with CSR

Stakeholder theory can generally be distinguished from corporate social responsibility in terms of how each frame the relationship between firms and society. While much contested in its form

and impact (Banerjee 2008), CSR proceeds from a view of businesses and corporations as members of a moral community with consequent responsibilities arising towards society in general. Many CSR accounts are 'pyramidal'/hierarchical in framing these responsibilities as primarily economic (the need to make money) and legal (acting lawfully in substance and in spirit); with ethical responsibilities (voluntarily doing the right thing) and philanthropic responsibilities (generosity towards the wider community in the absence of direct gains) arising thereafter – that is, once business (economic outcomes) are taken care of. Moreover, employee interests are in general absent from consideration in CSR practices and evaluation.

Stakeholder theories, by contrast, locate firms within a broader institutional context where social legitimacy derived from reciprocal relationships between the firm and the wider society lends stability and sustainability to the firm. It is the nature of this web of relationships with stakeholders as distinct groups, rather than society in general – and how organisations should and do consider their interests – that distinguishes CSR from stakeholder theories, with the latter recognising a more differentiated and complex web of stakeholders. This, of course, opens up the possibility that some configurations of stakeholders can create and share value in ways that do not deliver for society in general, a point to which we return.

Who is a stakeholder?

The variety of shareholder and stakeholder theories means that these are not binary but reflect a range of overlapping value propositions. While stakeholder theories encompass the network

of relationships in which business takes place, there is no consensus in the literature as to which parties have a 'stake' in a business. Some accounts identify stakeholders as anyone who is affected in any way by the performance of a business or organisation (Freeman 1984). Some distinguish direct stakeholders (such as shareholders, workers, customers, suppliers and the local community) and indirect stakeholders (such as the Government, competitors and interest groups).

Others distinguish normative stakeholders (for whose well-being the organisation has a direct obligation) from derivative stakeholders (those who can harm or benefit the organisation). Real challenges arise in developing stakeholder theory with a very broad definition of stakeholders. For this reason, we follow Frooman (1999) and Kochan and Rubinstein (2000) in defining stakeholders as those who contribute resources to an organisation, bear residual risk and who have some power in or over the organisation.

Stakeholder theory contends that stakeholders have some type of claim in relation to the actions and outcomes of the business. The nature of these claims or stakeholder goals is often only loosely specified – that workers have decent pay or good jobs; that communities are not polluted or exploited; that suppliers are not squeezed in contractual arrangements – the key issue being that rather than a single commitment to maximising shareholder value, businesses face multiple stakeholder objectives.

Kochan and Rubinstein suggest viewing organisations along a continuum from those where primacy is given to maximising shareholder wealth to those that

pursue the different objectives of multiple stakeholders, such as privately owned firms, partnerships and employee-owned firms. There is little specification in the literature, however, as to how these multiple objectives are weighted relative to each other (Kochan and Rubinstein 2000), and management remain, in formal and real terms, the decision-makers.

Shareholders as stakeholders?

The interests and goals of shareholders are nonetheless incorporated into stakeholder theories in three important ways. First, shareholders are stakeholders.

Second, most versions of stakeholder theory accord primary stakeholder status to shareholders and to managers who represent their interests, with a responsibility for them to take other stakeholders into account, not for all stakeholders to be treated equally. As Kochan and Rubinstein (2000) note, there is nothing exact in how stakeholders' interests are specified, and these interests do not necessarily imply power over a business, simply that the business should act with these stakeholder interests in mind. The theory does not imply that all stakeholders (however they may be identified) should be equally involved in all processes and decisions (Donaldson and Preston 1995).

Third, as Berman and colleagues (1999) have suggested, being mindful of the interests of some non-shareholders might also maximise wealth for equity shareholders, and while this position is widely contested, there is evidence that in the context of private/for-profit businesses, stakeholder theory is clearly consistent with value maximisation (Phillips et al 2003).

‘It is on the issue of material outcomes that shareholder and stakeholder theories most clearly diverge. Both may aim to maximise value-creation, but differ significantly in relation to how and by whom value is captured.’

Stakeholder management processes

Stakeholder theory encompasses not only the outcomes of organisational decision-making in terms of who shares in value-capture, but also the processes underpinning a stakeholder approach within organisations. Different stakeholder interests must be reflected in the organisation's governance arrangements, performance outcomes and key metrics in order to deliver and distribute value in line with multiple stakeholder objectives (Kochan and Rubinstein 2000). These authors argue that this requires a shift from a control-based governance model (of managers by shareholders and of employees by managers) to one built around co-ordination, co-operation and conflict resolution and aimed at creating and distributing value in ways that maintain stakeholder commitment.

Some level of stakeholder commitment is an important aspiration of both instrumental and non-instrumental stakeholder approaches. Stakeholder theory posits that the web of stakeholder relations within and around a business are not necessarily hostile and adversarial but can be constructive and can facilitate satisfaction of some of the preferences of a broad stakeholder group, leading to fairer or more equitable outcomes and a better distribution of benefits and risks across stakeholders. It is on the issue of material outcomes that shareholder and stakeholder theories most clearly diverge. Both may aim to maximise value-creation, but differ significantly in relation to how and by whom value is captured (Phillips et al 2003).

Levels of stakeholder analysis

Donaldson and Preston (1995) usefully distinguish between

the operation of stakeholder theory at a **descriptive** level (by acknowledging that organisations affect and are affected by society), an **instrumental** level (effective management takes links to stakeholders into account) and at a **normative** level (where stakeholders' rights provide a legitimate stake in how organisations are run). They note that the instrumental view is hypothetical (if stakeholder management is adopted, business outcomes will be improved), while the normative view is categorical (adopt stakeholder management because it is the right thing to do). These authors argue that stakeholder theory cannot be wholly justified, either analytically or empirically, in instrumental terms, and that the case for encouraging a stakeholder focus within businesses is ultimately a normative one.

A normative commitment to stakeholder approaches can be, and indeed is, enshrined in national institutional arrangements, and there is considerable cross-country variation in opportunities for stakeholders to influence businesses. Embedded (and statutorily underpinned) participation of unions in co-ordinated market economies that support social partnership such as Germany, Sweden and Finland ensures that the voice of employees and unions as stakeholders are represented in organisational decision-making.

At its core, stakeholder theory rejects a functionalist view of the firm where businesses' societal responsibilities are residual to their economic responsibilities. Managers themselves regularly report that their jobs involve serving a wide range of stakeholders (Donaldson and

Preston 1995) and managers can be seen as acting on behalf of these stakeholders and hence engaging in multiple, cross-cutting and often conflicting 'stakeholder-agent' relationships (Hill and Jones 1992). How these interests are balanced, and the implications for value-creation and capture, will be shaped not simply by managers' normative orientation but by a range of structural, regulatory, institutional and organisational factors. We will return in Part 2 to consider what levers of intervention might support stakeholder approaches to the value process.

Creating shared value: proposal and critique

More recently, Porter and Kramer (2011) have stepped into the stakeholder debate in their discussion of creating shared value (CSV), arguing that the decline in trust in, and perceived legitimacy of, business might be addressed by incorporating social objectives and priorities into business strategies. They define the creation of shared value as involving 'policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates'.

While much of their focus is on organisational-level practices, Porter and Kramer argue that their contribution is holistic in linking system-level practices and challenges to organisational-level practice. In this vein, they highlight a role for the state in setting 'regulations that enhance shared value, set goals, and stimulate innovation', connecting their work, in Crane and colleagues' (2014) view, to debates about 'caring' or 'conscious' capitalism and taking it beyond some existing debates on corporate social responsibility.

Crane and colleagues, however, have delivered a lengthy critique of the failure by Porter and Kramer to address appropriately the relationship between economic and social value-creation and any trade-offs therein. This failure to acknowledge the continuous tension between firms and their stakeholders is, they contend, also characteristic of much of the stakeholder value and CSR debates, and they argue that:

CSV does little to tackle any of the deep-rooted problems that are at the heart of capitalism's legitimacy crisis. It seeks to 'transform business thinking' yet makes no mention of the strategy models that might need transforming (only CSR and capitalism are presented as problems that need fixing). It looks to solve the macro systemic problem of capitalism by changing micro firm-level behaviors. It wants to rethink the purpose of the corporation without questioning the sanctity of corporate self-interest. It seeks to restore business legitimacy without considering either adherence to the rules of the game (compliance) or the role of financial markets ... A true societal perspective, however, would consider many of the problems corporations try to deal with on a local and controlled level as systemic problems of injustice that require broader solutions embedded in democratically organized multi-stakeholder processes. (Crane et al 2014, p140)

This last suggestion is one that Porter and Kramer have retorted is not realistic.

Barriers to wider value-capture

Stakeholder theories address, in part, how stakeholders contribute to the creation of value, and the distribution of value beyond shareholders. Yet the critique of 'creating shared value' outlined

above also highlights a key limitation of stakeholder theories in acknowledging and addressing the fundamental structural barriers that militate against non-shareholder stakeholders sharing in value-capture. Moreover, in much of stakeholder theory, the potential returns to stakeholders are significantly under-specified, leaving any real shift in value-capture highly unlikely.

This latter issue is of most consequence in relation to workers. Stakeholder approaches that define a broad stakeholder group, and recognise distinct stakeholder groups as equivalent, attenuate the link between value-creation and its capture – in particular, the crucial link between those who create value directly and the returns they accrue. Put simply, we contend that stakeholder theories are often insufficiently labour-centred.

There have, however, been efforts to focus on the role of labour in so-called 'stakeholder' firms that acknowledge and give voice to multiple and sometimes competing interests and goals within the organisation. Kochan and Rubinstein's (2000) analysis highlights both the crucial role of labour as the most significant business stakeholder and the explicit relationship between how value is created and claims on its distribution. These authors argue that stakeholder interdependency and power dispersal increases the potential for improving performance and, hence, creating more value through the eliciting of discretionary effort from employees and the interactions of groups and teams, while also increasing the potential for conflict – over processes, influence and value-capture – across internal stakeholder groups in particular.

Thus, the critical organizational tasks for a stakeholder firm lie in (1) mobilizing the stakeholders to commit their assets in ways that contribute to performance, and (2) coordinating efforts and resolving conflicts that arise when multiple interests share power. For a stakeholder firm to function successfully, employee discretionary efforts need to be mobilized, high levels of communication and coordination are needed across groups and functions, and conflicts need to be surfaced and resolved effectively. Given the multiple interests that share power, conflict resolution is likely to be an especially critical function in stakeholder organizations. (Kochan and Rubinstein 2000, p377)

This captures precisely the challenges at the heart of stakeholder theories and of many extant HR debates – and, indeed, at the heart of the employment relationship – that engaging workers in enhancing value-creation throws into even sharper contrast their relative absence in value-capture. This tension is present in critical accounts of high-performance work systems, where individualised rewards for high performers only are prioritised (Ramsay et al 2000), in discussions of the decline of union membership and in the reach and influence of collective bargaining (Traxler 1996) and the reduced ability of unions to deliver a greater share of value for labour, and in accounts of workplace innovation where employees are invited and encouraged to deploy their knowledge, skills and experience to enhance value-creation through doing new things but without any clear offer or expectation that any

new value thus created will be shared with them (Beirne 2013). Rather, workers' co-operation with innovative practice and willingness to drive innovation – or any value-added labour – is taken for granted, and insofar as there is any real acknowledgement of a return for labour, it is in a reduction of job insecurity rather than an increase in their value-capture.

Management calls for greater employee engagement, co-operation with high-performance work systems and workplace innovation co-exist with significant job and job status insecurity, increasing work intensification and performance demands (Gallie et al 2017) – all of which attempt to enmesh labour more proactively in value-creation but with little on offer in terms of sharing in the benefits these deliver. On the contrary, labour's share of the functional distribution of income in advanced economies has been on a downward trajectory since the 1990s, significantly lagging improvements in productivity (ILO and OECD 2015).

The potential of stakeholder perspectives

Stakeholder theories have opened up an alternative way of thinking about value in organisations that addresses the issue of who shares in value-capture as well as value-creation and, as we will discuss further in Section 4 below, in certain types of organisation, the central concepts and objectives of stakeholder theory are well recognised. Yet to date, they remain an undeveloped resource to challenge the dominance of MSV perspectives. In the context of the increasingly evident and negative outcomes of business models

in which MSV predominates, however, further attention is required as to how to account for and embed stakeholder perspectives, particularly in relation to the contribution of, interests of and returns to workers. One possible way of highlighting broader stakeholder interests and contribution is through accounting practices. For this reason in the section following we review developments in accounting practice that attempt to incorporate alternative approaches to defining, measuring and reporting value.

Recasting the nature and reporting of value in accounting and finance

There have been some interesting initiatives (set out in detail in Part 2) by various professional accounting bodies and professional service firms, the IIRC² and others, to promote the use of a richer set of accounting information relating to business models, capital inputs and value outputs, through integrated reports, balanced scorecards and so on. These initiatives attempt to recognise a broader group of stakeholders in the annual reports of companies and, on the surface at least, appear to be slightly at odds with the shareholder value maximisation approach.

When considering profit as an output measure, it is important to remember that accounting is an 'art, not a science'. It requires judgement and relies upon a vast array of constantly changing rules, standards and other forms of regulation. Moreover, there is a complex relationship between a company's profit and its share price. In theory, share prices are more influenced by the prospect

² The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard-setters, the accounting profession and NGOs. The coalition is promoting communication about value-creation as the next step in the evolution of corporate reporting. (<https://integratedreporting.org/the-iirc-2/>) [Accessed 29 August, 2017].

of future profits than current ones, and so a company's share price might be quite high, even following several years of losses, if investors think that it will be profitable in the future. This raises an important question – how do investors decide that company A's future profits will be higher than company B's? Most empirical academic research which is interested in this arena has assumed that markets are 'efficient' and part of this efficiency is that all publicly available information is included in the share price, almost instantaneously. So, from a market perspective, do investors believe that 'superior' human/intellectual capital or company investments in their staff will enable companies to earn greater profits? If so, is there a case from an investor perspective to provide better (regulated?) information about human and intellectual capital?

Some academic studies suggest that fair and representative treatment of HC is important to investors (McKnight et al 2002, Maertz et al 2010). Hillier and colleagues (2007) suggest that when companies consider downsizing, they should look for alternatives outside of employee streamlining as this is viewed negatively by the market, perhaps because survivors of lay-offs have lower perceived organisational performance, lower job security and a lower attachment to their organisation compared with 'no lay-off' firms (Maertz et al 2010). Moreover, as Hillier and colleagues (2007) noted, and Cascio and colleagues (1997) found empirically, neither employee downsizers nor combined downsizers (who reduce employee and capital expenditure) realise any return on asset (ROA) improvements comparative with their own industry or stable-employee industries. However, a recent CIPD (2017b) report

assessed published peer-reviewed literature and found that while analysts do have access to some human capital information, and sometimes use it, it is often used to a very limited extent compared with other types of intangibles. In addition, the report found that mainstream and environmental and social governance analysts focused on a narrow range of human capital aspects (for example management quality) as well as human capital data with cost implications (for example workforce size).

Overall, it appears that the small body of empirical finance research suggests that the market will react to significant announcements regarding employees, not least because of the impact that employees have on profits. However, this still raises the question as to whether shareholders need any additional information to that which is already available. The academic accounting literature has begun to acknowledge the importance of IC and HC mainly based on the concern that accounting has failed to change to meet the needs of the 'new economy' which is animated by information and knowledge. But while much of the mainstream academic literature presents normative arguments in support of IC/HC reporting, there is a dearth of research which empirically studies the practice of IC/HC reporting (Dumay et al 2016).

A significant proportion of the critically informed academic literature is understandably suspicious of any form of IC or HC reporting. For example, Roslender and colleagues (2015), while supportive of HC and IC reporting initiatives, found that there is little in the history of accounting theory and practice that has

'A significant proportion of the critically informed academic literature is understandably suspicious of any form of IC or HC reporting.'

served the interests of labour well. Other work discusses the ethical and moral dimensions of accounting for people (see McPhail 2009). Whatever the rights and wrongs of accounting for human beings, the transition from ‘profit maximisation’ to ‘shareholder value maximisation’ has produced a change in the relative hierarchy of the financial reports of companies. Whereas the income statement (profit and loss account) used to be the primary financial statement, the change in the purpose of companies has proved to be the slippery slope to what Power (2010) describes as a balance sheet (statement of affairs) approach to accounting in which the balance sheet components have to become meaningful rather than residual values. Thus, there is an emerging stream of research which compares the ‘book value’ (the total of the assets less the liabilities in the balance sheet) with the market value of the company, which suggests that part of the difference must be attributable to intellectual and human assets. This research aligns with the finance literature in its belief that analysts and investors will seek out information on the IC/HC of a business in the hope that it will enable more accurate future profits forecasts and has found that there is a relationship between IC/HC reporting/news and share prices (Lin et al 2015). The rather narrow investor focus of much of the mainstream academic literature reflects a narrow understanding of corporate accountability. We next discuss a government initiative from the early 2000s which sought to increase the information in corporate reports, through more ‘narrative’ reporting.

Legislation on ‘narrative’ reporting – the operating and financial review (OFR)

The most likely place in annual reports for ‘human accounting’ would be in the ‘narrative section’ of the annual report. An unaudited narrative report called the ‘operating and financial review’ (OFR) which had featured in company reports since the early 1990s became the centre of government manoeuvres in the early 2000s to broaden the information base of annual reports to include information on and for employees. This was in line with the Labour Government’s official policy to increase corporate accountability. One way to achieve this would be to have a compulsory and audited OFR which would contain information on the wider social and environmental impacts of corporate activities.

Contemporaneous with the Labour initiative, in 2003 the EU issued its ‘Accounts Modernisation Directive’, which was, in part, designed to bring about consistency across member states in the level of narrative reporting in the annual report. It required a mandatory addition to the directors’ report providing an enhanced review of a company’s business. It broadly stated that the annual report should include information relating to environmental and employee matters in the context of understanding the company’s development, performance or position. More promisingly, in the UK in January 2003, a task force on human capital management (the Accounting for People Task Force) was established by the Secretary of State for Trade and

Industry. The task force report was strongly supportive of greater transparency on how value is created through effective people policies and practices, and listed an array of stakeholders with an interest in such transparency. The task force recognised that the OFR section of the annual report was the appropriate place for this.

In 2004, the Labour Government consulted on implementing a new statutory OFR in light of the EU Accounts Modernisation Directive. Following powerful lobbying by business, the key tenets of the proposed OFR were attenuated to a narrow focus on investors rather than broad-ranging stakeholder groups. The final OFR regulations became law in March 2005. The Government gave the Accounting Standards Board statutory power to make a reporting standard in this area, which was duly issued in May 2005. The standard’s implementation guidance sets out several pages on such matters as employee morale and health and safety.

To the surprise of many, in November 2005 Gordon Brown (the then Chancellor) announced that the Government would not go ahead with plans to require companies to produce an OFR. The statutory underpinning of the reporting standard was thus removed – it was changed into a statement of best practice.³ Overall, for a few months in 2005, there was Labour backing for more comprehensive and innovative ‘accounting for people’ in the annual reports of companies. Rowbottom and Schroeder (2014) argue that the withdrawal by Brown was

³ In light of EU regulation, the requirement to produce a less ‘onerous’ business review remained. More recently, the operating and financial review has been replaced by the Financial Reporting Council’s Guidance on the Strategic Report (June 2014). This guidance document, which applies to large companies, sets out that disclosures about the environment, employees, social, community and human rights issues are required when material. There is also a requirement to include disclosures on gender diversity.

driven by (misplaced) political opportunism. The withdrawal was specifically designed to curry favour with big business on the grounds that Brown and the Treasury would not wish to impose unnecessary regulatory burdens on UK companies. This manoeuvre received a mixed reaction. The accounting industry saw a potentially lucrative new form of audit business disappear, while the stock exchange was relieved that it would not lose the business of companies delisting (or moving to less onerous exchanges) in the face of increased regulation. In any case, the vast lobbying before the OFR legislation was passed had ensured that the OFR maintained a shareholder focus, did not increase director liability, nor significantly extend corporate accountability (Rowbottom and Schroeder 2014).

The rise and rapid demise of the OFR highlights the very complex institutional structures which would have to be overcome in order to shift accounting's focus away from a preoccupation with investors and creditors and shareholder value maximisation. It was interesting that the Government gave statutory power to the Accounting Standards Board to make a reporting standard on the OFR. This serves to highlight the importance of the highly influential accounting profession.

The accounting profession and accounting regulation

Initiatives in enhanced reporting have taken place within an institutional setting that is dominated by a powerful and coherent accounting industry that has a well-founded hierarchy, regulatory structure and

quantitative method (Cooper and Senkl 2016). The dominant accounting regulatory body (accounting standard-setter) is the IFRS. IFRS standards are set by the IFRS Foundation's standard-setting body, the International Accounting Standards Board. The dominant funders of the International Accounting Standards Board are the four largest professional accounting services firms.⁴ The key staff of these professional services firms are mainly members of one (or more) accounting professional bodies (ICAEW, ICAS, and so on) from which they gain esteem and legitimacy.

Arguably, the accounting industry, has 'enclosed' the production of accounting information (Chabrak et al 2017). Companies in 138 countries are either required by their governments, or permitted, to follow IFRS standards. Accordingly, there are a host of institutions with different interests who would like to be able to influence accounting regulation. National accounting standard-setting bodies can set national rules. For example, since 2010, the UK Corporate Governance Code, which is mandatory for listed companies under stock exchange rules, requires directors to include an explanation of their business model in the annual report which highlights how a company uses different forms of capital – financial, intellectual, human, environmental and so on – to create value (Financial Reporting Council 2016).⁵ However, international accounting rule-setting is the domain of the IFRS, and audited company financial reports, which have been compiled according to the requirements of

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⁴ PricewaterhouseCoopers (PwC), Ernst & Young (EY), Deloitte, and KPMG.

⁵ And since 2013, the UK Strategic Report Regulations require the disclosure of business models by quoted companies.

international accounting standards, are deemed to be 'legitimate' and 'trustworthy' by the international investment community.

In terms of the views of accounting regulators on IC (Accounting Principles Board 1970, Accounting Standards Board 1997, International Accounting Standards Committee 1998), they have typically lumped IC together with other intangible assets (such as reputation) (see Pew Tan et al 2007). The current accounting standard on intangibles, IAS 38, is extremely conservative regarding the intangibles which it will allow into the accounts of companies. The International Accounting Standards Board (IASB) justifies the dearth of regulation on human capital reporting by suggesting that 'intangibles' (like human beings) are already reflected in the financial results of a business (one would imagine through the income statement).

From an accounting perspective, initiatives such as Integrated Reporting or the inclusion of business models in annual reports are seen, by some, as options for culling the 'narrative' parts of annual reports. It has been argued (Beattie and Smith 2013) that a clearer elucidation of a company's business model will enable it to eliminate all of the narrative elements in their annual report which are not concerned with the company's business model, and so unnecessary. A recent Financial Reporting Council (2016) report on corporate business model reporting suggests that accounts should include employee numbers and cost disclosure and an explanation of how human resources are employed according to the business model. In terms of value-creation, the report

suggests that it is important to disclose how a company generates economic value, what are the key revenue and profit drivers and how they are monetised. It further suggests including information on any key assets and liabilities that support value-generation and how they are maintained or enhanced. Within this, it would be possible to report on employees' input into the value-creation process. But, there is no specific concern with the way in which employees create value. Importantly, information relating to the employees of a company is typically seen by the accounting industry as *supplementary* to traditional forms of financial reporting.

For our purposes, there are two important beliefs which underpin the work of the IFRS (as well as professional service firms, professional accounting bodies and national accounting standard-setters). The first concerns the groups for whom accounting information is prepared. These are elucidated in the IFRS *Conceptual Framework for Financial Reporting*, which makes clear that the objective of financial reporting is to provide financial information about the reporting entity that is useful to *existing and potential investors, lenders and other creditors* in making decisions about providing resources to the entity.⁶ Thus, according to the IFRS, financial reporting is only concerned with a narrow set of stakeholders (in effect, shareholders and creditors). The UK's own Financial Reporting Council takes a similar approach. In its 2016 report on business model reporting (Financial Reporting Council 2016),⁷ it lists (p5) a very narrow set of stakeholders comprising companies, investors and advisers.

The second belief is that the dominant output of a business is shareholder or financial value. This was made clear in a speech on 26 April 2017 by Hans Hoogervorst, Chairman of the IASB, in which he set out the current approach of the IASB (the Board) to wider corporate reporting (for example Integrated Reporting). He stated that what he was saying was 'tentative', but then went on to say:

Let me start out by saying that the Board is not concerned that the relevance of financial reporting is under threat. First, because financial reporting is primarily – but certainly not exclusively – backward looking, it offers the most tangible evidence of a company's performance. The income statement will remain the 'hardest' and most comparable source of information for investors. Second, in the course of time, all value-creation – also the focus of integrated reporting – will ultimately pass through the financial statements, although often with a considerable time lag. For these reasons, the financial statements will most likely remain the main anchor for investors and creditors in evaluating a company's performance. (IFRS 2017, p1)

In short, the dominant position taken by the accounting industry is that value-creation is ultimately financial value-creation. Any initiative which sets out to bring about changes to financial reporting, for example social accounting or intellectual capital accounting, without the backing of, and inclusion into, IFRS standards, will, at best, remain a secondary, less important information source.

⁶ www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/ [Accessed 27 August, 2017].

⁷ FRC. (2016) *Business model reporting*. Available at: www.frc.org.uk/Our-Work/Publications/Financial-Reporting-Lab/FRC-Lab-Business-model-disclosure.pdf [Accessed 27 August, 2017].

3 Value-creation and capture – the need for an integrated approach

The preceding discussion of the distinct and separate literatures around value highlights the need for an integrated debate about how value is created and captured, and the relationship between these distinct yet connected processes. Value-capture has implications for value-creation, and both need to be understood in relation to the other. While the pervasiveness of the MSV model, strengthened by processes of financialisation, has characterised recent decades in many advanced economies, this model speaks only to value-capture, and is silent and arguably neutral on value-creation. Yet MSV has massive impact on value-creation and the business models that support creating value for shareholders. Put simply, shareholder value pressures lead to the development of business models based on meso- and micro-level accounting techniques and management practices that transfer economic risk to labour (Allen and Henry 1997), increase insecurity (Kalleberg 2009), reduce labour's share of value-capture (Karabarbounis and Neiman 2013) and exert excessive pressure on supply chains (Gearhart 2016).

While both human capital and HRM approaches speak directly to the creation of value, both say little about how value, once created, is distributed and to whom. Despite the growing concern over dysfunctions associated with some business models that support MSV, focusing only on value-creation means that HR professionals have little to say about these emergent cracks in such models. Thus, while the

HR community brings important insights into any debate on value-creation, viewing value through a wider lens is necessary to enhance the HR profession's ability to influence the entire value process.

While we have focused on the predominant MSV model, businesses exhibit a range of approaches to value, and it is important to learn from alternative approaches that are oriented towards a wider stakeholder group. Employers make (constrained) choices in implicit/explicit decision-making related to their business model and thus how they define their value proposition. While these choices are constrained by socio-institutional/macro factors, they have implications for how value is defined, created, and captured, the ways in which human, social and intellectual capital is attracted, developed and maintained as part of businesses' value propositions, and who shares in value-capture.

Stakeholder theories have developed, but not resolved, the challenge of who shares in the distribution of value. Alongside social accounting approaches, stakeholder theories rightly acknowledge the social embeddedness of business and the claim of stakeholders to have a say in what businesses do and a share in what they create. Yet stakeholders are often broadly and loosely defined and the mechanisms by which their interests are represented within businesses, as well as the extent to which they wield influence, is often underspecified.

'Stakeholder theories have developed, but not resolved, the challenge of who shares in the distribution of value.'

Part of the lacunae that this creates might be addressed by a greater focus on proximate stakeholders, and labour in particular, in value-creation and capture. There is broad agreement that labour plays a crucial role in value-creation and there is increasing recognition of the innovative potential and economic value of investing in and deploying human, social and intellectual capital. Some of this debate has emerged in discussions of the individual, organisational, economic and social benefits of high-quality jobs that should better support high-value business activities (Findlay et al 2017). Yet as any consideration of the evidence on high-performance work systems makes clear (Jensen et al 2013), labour's role in enhancing value-creation, particularly in relation to discretionary activity, is underpinned by labour's share in value-capture (Findlay et al 2016a).

This latter point has been central to research on mutual gains employment relationships which combine attention to improving value-creation with a greater right to, and share of, value-capture for labour. Kochan and Osterman's (1994) *The Mutual Gains Enterprise* proposed that firms can address how the workforce is managed in ways that generate competitive advantage and deliver gains (value) to multiple stakeholders, thus '*expanding the proverbial "pie" to create "the conditions for a win-win" employment relationship*' (Avgar and Owens 2014) where workers benefit materially and in particular in enhanced employment security (Appelbaum and Batt 1993). There are strong parallels between some analyses of mutual gains employment relationships, often built around employer-employee partnership arrangements, and instrumental stakeholder theory.

The evidence, however, on the outputs and outcomes of mutual gains approaches in businesses is somewhat mixed (Glover et al 2014, Whyman and Petrescu 2014). It is unsurprising, given our earlier discussion, that voluntarist approaches to sharing value gains are enormously sensitive to inequalities of labour market power as well as to occupational, firm, sectoral and national context. In the UK and Irish contexts, the many critics of what are supposed to be mutual gains employer-employee partnerships point to limited substantive gains made by workers through such arrangements in the context of declining trade union power and limited institutional support (Kelly 2004, Roche and Teague 2014). As Bélanger and Edwards (2007) note, while sustainable mutual gains arrangements require supporting conditions that are relatively rare, such arrangements are more likely, and more likely to be successful, where 'beneficial constraints' exist, such as state intervention to contain some market pressures, or where particular market conditions or employer orientations support mutual gains arrangements. As such, '*... the balance of mutuality and the conditions supporting workplace compromise warrants analytical and empirical examination*' (Dobbins and Gunnigle 2009, p546) in a specific context. At workplace level, Budd (2004) argues that building effective collaborative relationships requires balancing value-creation, realisation and capture by paying attention to the relative emphasis on efficiency, equity and voice, rather than adopting extreme and potentially untenable positions.

However, there is a need to move beyond the '*business-case "productive factor" approach*' (Wilkinson et al 2014, p740) to

building stakeholder recognition and collaboration within businesses, as currently favoured by the EU. It also means moving beyond a single-level focus on the organisational level towards identifying and measuring the full direct and indirect costs and benefits of business models for individuals, businesses and society (Findlay et al 2016a). Maximising shareholder value, in ignoring such externalities, obscures important costs imposed in the value process that are not borne by businesses and by the shareholders that capture value.

We will return to the potential for institutional interventions to influence value-creation and capture in Part 2. In the following section, we look at how business models reflect distinctive value propositions driven by the existence of 'beneficial constraints' or alternatively 'detrimental enablers' alongside the scope for employer choice.

4 Business models and choice in value propositions

The extant literature on business models and value-creation suggest that organisational (and managerial) strategic choices are central to how the organisation defines and seeks to create value (Teece 2010). As a theoretical construct, the business model has been largely absent from accounting, economics and business studies (Shafer et al 2005, Casadesus-Masanell and Ricart 2010, Teece 2010). Notwithstanding a lack of definitional agreement, business models encompass interconnected value processes and networks that reflect the key business choices made by firms. Simply put, the business model can be defined as *'the logic of the firm, the way it operates and how it creates value for its stakeholders'* (Casadesus-Masanell and Ricart 2010, p197).

The concept of business models as distinctive strategies, practices and narratives to create value for stakeholders can be applied at firm, sector or (less convincingly) national levels. There is little consensus on the composition of business models. On the one hand, there are references to choices and consequences (Casadesus-Masanell and Ricart 2010) and, we would add, contexts. On the other hand, there are references to concrete practices, such as cost structures, pricing, capitalisation and cash generation (Andersson et al 2014). The primary purpose of any business model is to identify how to use firm resources more productively to create and capture value or, put another way, to enhance surplus generating capacity. Conventional wisdom,

particularly in the HR field (see for example CIPD 2017a, 2017c), holds that a combination of organisational or 'people-related' capitals (including human, intellectual, social and financial capitals) create layers of firm value, though not without *'structural capital'* or the *'supportive infrastructure, processes and databases that enable human and social capital to function'* (Ordóñez de Pablos and Tennyson 2013).

However, business models are not closed, consensual or even necessarily coherent systems. Corporate strategies are, in part, concerned with different configurations of value-creation and capture (or extraction) and these typically exhibit a bias in governance, distribution and other processes towards particular stakeholders (such as shareholders, suppliers, workers, customers). For example, as Lazonick and Mazzucato (2013) argue, in many large private organisations there is a tension in the risk-reward nexus between the human capital (effort and embedded skills and knowledge) expended in value-creation and how value is extracted. Sustainable value-creation tends to be collective and cumulative, but may be under-recognised and undervalued in the market when more powerful economic actors use allocation processes in product or financial markets to extract disproportionate value, often in short-term and speculative ways. One example of this is the way in which the cost competition strategies of powerful supermarkets impacts on suppliers and their workers through

'The primary purpose of any business model is to identify how to use firm resources more productively to create and capture value or, put another way, to enhance surplus generating capacity.'

'opportunistic dealing adopted by the supermarkets in vertically disintegrated supply chains, where all actors attempt to pass the risks and costs onto somebody else' (Bowman et al 2013, p300) to such an extent that production (in this case, of meat products) becomes, according to these authors, almost unviable. That is not inevitable, but rather one outcome as rival power resources are brought to bear through stakeholder interactions and adaptations, leading to business models as dynamic and contested processes. In this section, we draw attention to some of the strategic choices around work and value that underlie business models.

This is not a fully developed typology, but it does identify some of the range of practices across different sectors, focusing only on privately owned businesses. Value is, of course, created in other types of organisation – for example, use values are created in the public sector – and we acknowledge that many of the business models and management approaches that stem from MSV in businesses are also learned and adopted in public and third sector organisations. But value-creation in private businesses is fundamentally different in character and a *'...simultaneous discussion of a variety of possible stakeholder relationships leads, in our view, to confusion rather than clarification. The critical corporate stakeholder issues, both in theory and in practice, involve evidentiary considerations and conceptual issues (for example, the meaning of property rights) unique to the corporate setting'* (Donaldson and Preston 1995, p69). With this in mind, we consider the globalised non-financial corporation, knowledge-intensive firms, gig/digital businesses, privately owned (that is, non-listed) firms and employee-owned enterprises. While these business models differ

significantly, Section 6 shows that tensions exist between value-creation and capture in every type of firm and that there are decisions regarding trade-offs between the two to be made in all firm circumstances.

The globalised non-financial corporation

Given the size and diversity of privately listed firms, a search for a distinctive business model would be fruitless. We can, however, note three overlapping medium-term trends amongst large international players.

Concentration: In the 1990s and into the new century, there was a marked acceleration of the trend towards concentration and centralisation of capital (Nolan and Zhang 2003, Foster and McChesney 2012). Though Nolan and Zhang (2003) focused on firm-level concentration on a global scale across the value chain in many traditional industry sectors, such as aerospace, automobiles and banking, it is equally true of the newer creative industries (Fitzgerald 2015) and internet corporations (Fuchs 2013). The building blocks of the business model are the development of integrated logistics and distribution networks that allow central co-ordination, increased market share (often through merger and acquisition), building the power of global brands through huge advertising budgets, and using that market leverage to exercise tight controls upstream and downstream across the chain, establishing high switching costs for suppliers. To the extent that such models include knowledge-intensive R&D amongst core, home-nation technical-professional workers, value-creation through human capital plays a central role (Mahutga 2014). However, as will be seen below, we have to look at the whole model and chain.

Globalisation of value chains:

Central to the dominant business model has been the strengthening of lead firm governance in the value chain. Milberg (2008) argues that in conditions where intensified competition makes it harder for lead firms to make profits through raising prices in product markets, and when they are less willing to invest in human and technical capital to raise productivity, lowering input prices thus becomes the main thrust of the dominant business model. Two pathways are particularly prominent. Lead firms 'slice up' the chain through offshoring, arm's-length subcontracting and other arrangements (Milberg 2008, p424). They also seek to squeeze and shift risks and costs onto suppliers. Centralised procurement is a core mechanism of this, with formal, metric-based calculations driving standards and evaluation processes rather than longer-term relationship-building, as illustrated, for example, in retail (Baud and Durand 2012) and mining (Parker et al 2017). Though other components of the business model may differ, the activities of Apple (Haslam et al 2013, Lehman and Haslam 2013, Froud et al 2014) and Walmart (Gereffi and Christian 2009, Lichtenstein 2011) reveal a reliance on low pricing and global sourcing, with an emphasis on value-capture and cost controls in the supply chain that adversely hit labour's share of value-added and human capital formation amongst suppliers and subcontractors.

Financialisation: We covered the general characteristics of financialisation earlier (see Section 2 above), so there is no need for repetition. The point to emphasise here is that most of the above studies of the value chain provide evidence that financialisation is a key driver of both concentration and global sourcing strategies. Shareholder

value pressures heavily weight business models in the direction of cash returns and disbursement, boosting market values of stock and the development of new revenue streams in part through financial engineering. In turn, this stimulates incentives for cost-reducing, flexibility-enhancing offshore production (Milberg 2008, p421) and value-based control mechanisms (Cushen and Thompson 2012, Parker et al 2017). In contrast, a business model bias towards value-extraction deters long-term investment and innovation, particularly in organisational capitals (Orhangazi 2008, Stockhammer 2008, Lazonick and Mazzucato 2013).

Knowledge-intensive firms

Though claims that knowledge is the driving force for contemporary economies have been over-stated (Thompson and Harley 2012), knowledge-intensive industries are at the centre of national innovation systems. Wider stakeholder investment in the life sciences knowledge base by the state – such as incentives for knowledge transfer from universities and start-up SMEs through the UK Catapult programmes – is also typical of such sectors (Kerry and Danson 2016). Given the extensive cycle of product development from discovery to market, firms in sectors such as biopharmaceuticals have traditionally been regarded as operating a science-based business model with strong, long-term investment in R&D and other knowledge-based assets, and with a dependency on the role of intellectual capital in product and process (Froud et al 2006, Andersson et al 2010). It has been argued that much of the thrust of the development of knowledge management initiatives and tools have been driven by initiatives in biopharma and similar industries, as management search for ways of widening the value-creation

net through more systematic and productive access to the tacit knowledge of expert labour (McKinlay 2002, 2005).

However, knowledge-intensive industries are not immune to the broader trends described above. There is now a persuasive body of evidence indicating a partial financialisation of the traditional business model (Froud et al 2006, Lazonick et al 2007, Andersson et al 2010, Montalban and Sakinç 2013, Gleadle et al 2014). Cost pressures mean that companies are finding it harder to finance research-based drug discovery through high returns on investment. As a result, there has been a shift away from a productionist model to one in which there is increased dependence on the capital market to fund the risks over the development cycle. Financialisation in pharmaceutical and biotech companies occurs where:

The main objective of financial investors, to generate a higher and less risky return on equity and debt, gains in importance over – and moves out of line with – the concerns of employees, customers, suppliers and others directly involved in the flow of material and human (as distinct from capital) resources. (Gleadle et al 2014, p68)

The length of the cycle and the pipeline allows investors to exert pressure at various ‘milestone’ points to ensure that R&D increasingly pays for itself in the here and now and when new blockbuster drugs are not on the immediate horizon (as has increasingly been the case). Such trends have been noted in the recent report to the Government of the Life Sciences Industry Strategy Board (2017). They refer to the ‘misalignment’ of the available types of risk capital and the relative absence

‘Cost pressures mean that companies are finding it harder to finance research-based drug discovery through high returns on investment.’

of 'patient capital' compared with the realities of long-term drug discovery and development. While such developments do not remove or marginalise human capital inputs, the speed-up of discovery to market does subject expert labour to greater pressures for standardisation, work intensification and constraints on autonomy (McKinlay 2002, 2005). One other change in the industry ecosystem is worth noting. The high returns available from high-tech start-ups make biopharma SMEs attractive locations for intervention by venture capitalists and IPOs that take mutually or privately owned firms to the market. Such developments capitalise value generated collectively by economic actors and are accompanied by a narrative that associates risk-taking with new investors, neglecting the role played by the state and other stakeholders (Lazonick and Mazzucato 2013).

The (digital) gig economy

The term gig economy is ubiquitous in UK public discourse, with recent debate focusing on Matthew Taylors's report for the Government (Taylor et al 2017), with its recommendation of new legal rights for 'dependent contractors'. Though contentious, the dependency terminology is a step back from widespread claims in business literatures associating 'gigs' with a networked digital economy defined by the dominance of freelancing, contracting and so-called 'entployees'. This is represented as the growth of an independent workforce, located in a business model defined by the matching of flexibility- and autonomy-seeking workers, and value-conscious consumers looking for new personal and professional services. In this picture, both firm and workplace disappear, or at least diminish in significance, as '*collaborative and peer-based forms*

of labour organisation ... shape lives independent of dominant institutional forms' (Cefkin et al 2014, p4).

Commentaries on the gig economy tend to focus on casualisation in the labour market, notably zero-hours contracts. While relevant, often the net is cast widely to any form of 'gig' and without investigating the underlying business model and labour process. Temporary forms of labour have long been associated with industries such as film, which run largely on the basis of recurrent projects (Blair 2001). In this section, we are concerned solely with the distinctive, relatively new on-demand, online digital labour platforms (see Bergvall-Kåreborn and Howcroft 2013, Graham et al 2017, Grandini 2017). The platform business model offers a two-fold process of re-intermediation – of the meeting of supply and demand of work, and of the workers' revenue stream – that re-territorialises capital-labour relations in a context characterised by geographically dispersed, formally 'freelance' employment that functions as a form of 'internalised offshoring' (Silverman 2014). Online does not mean unanchored in a material context and value is still created in a virtual, digitised point of production.

It is difficult to estimate accurately how many workers are involved in such platforms as there are significant differences between the numbers registered and those considered to be active (Findlay and Thompson 2017). Though digital labour platforms operate through workers creating a profile in order to be available for hire, there is a diversity of forms. Crowdsourcing involves the platform facilitating clients or organisations offering open calls for bids for work that range from

high-skill or complex projects (Freelancer, Upwork) to low-skill, fragmented micro-tasks that are re-assembled by the client (Mechanical Turk, TaskRabbit). Such contest platforms can be contrasted to companies such as Uber and Deliveroo, who themselves define and specify product and task.

Nevertheless, there are broad similarities across the business models that derive from the flow of value through this digitised point of production. This conversion of labour power captures value through the cost structure produced by the subordination of formally independent contract labour. The role of the firm and the platform is rendered opaque if not invisible to the customer, as management operates at a distance through algorithmic controls that assemble feedback, reviews and rankings into reputation metrics and reputational capital for workers (Graham et al 2017, Gandini 2017). The platform business model facilitates value-capture by firms and customers, but is harder for workers because of spatial dispersion, the lack of transparency of algorithmic design and information asymmetries. In this context 'dependent contractor' is a conceptual convenience, a sticking plaster that is lagging behind UK legal rulings that Deliveroo, Uber and other workers are fully subject to managerial direction and discipline (Rosenblat and Stark 2016). There are exceptions. Participants in crowdsourcing platforms for the Global South can exercise forms of skills arbitrage – in other words, to sell labour to parts of the world and in product markets where it is normally more expensive (Lehdonvirta 2016, p68). However, the aggregate effect is to diminish labour's capacity to capture a proportionate share of value added.

Private shareholder firms

Approaches to maximising shareholder value vary according to the nature of shareholders and their relationship with other stakeholders. It is unhelpful to think of all businesses operating in line with the practices and approaches of large corporations, not least because the majority of businesses are not, and the majority of employment is not in, large corporations but rather in small and medium-sized enterprises. A wide range of business models operate among profit-seeking private ventures and it is not possible to refer to them all here. For illustrative purposes, however, focusing on one firm form – family-owned firms – allows us to pose business model alternatives and to open up a debate on the role of patient capital (as distinct from ‘impatient’ or ‘activist investor’ capital, see Jacobs 2011) in business models.

The literature on family firms has long recognised that these firms can exhibit distinctive approaches to value-creation that are not driven by profit maximisation, as well as distinct approaches to value distribution that do not focus solely on maximising shareholder value. Three distinctive elements that are more prominent in

family firms are highlighted: the pursuit of non-financial goals; the engagement of stakeholders other than shareholders; and the sharing of risk and benefits.

It is well recognised that non-financial goals including corporate reputation, autonomy and control, loyalty and trustful relations, status and community goodwill are more important to many family firms. Some argue that aspirations for identity fit between family and firm, allied to the visibility of the family in the businesses, drive non-financial goals (Zellweger et al 2013). Family identity alignment is also an important element of family businesses’ orientation towards the creation of socio-emotional, as opposed to simply economic, wealth through creating greater security, nurturing contribution and sharing benefits (Berrone et al 2012). Creating socio-emotional wealth or value does not eschew financial or economic issues but pursues these alongside non-economic objectives that are important to the business and its stakeholders.

Cennamo and colleagues (2012) draw on family businesses’ aspiration to maintain and increase socio-emotional wealth as an explanation of greater stakeholder

‘Creating socio-emotional wealth or value does not eschew financial or economic issues but pursues these alongside non-economic objectives that are important to the business and its stakeholders.’

‘Patient capital’ is long-term investment aimed at generating returns from substantial business growth that shields firms from excessive concern with short-term market indicators, although what constitutes long term varies by sector. Block holding of shares – such as, for example, that by the Swedish Wallenberg Foundation or charitable trusts – promotes patient capital.

This is contrasted with ‘impatient’ or ‘activist investor’ capital as exemplified by hedge funds that prioritises short-term profit maximisation for high returns from lower-risk projects.

Patient capital is widely viewed as necessary for businesses and sectors that require high investment in R&D and to support world-leading innovation.

engagement in family firms. Many family owners place greater emphasis on, and value, social goals and consequently show greater sensitivity to stakeholder issues and interests. Such proactive stakeholder engagement may be instrumentally driven, hence focusing on those stakeholders with a greater influence on firm control and survival, but engagement may also be normatively driven and reflect core values about how the family firm should 'do the right thing' for its various constituencies and society. Non-financial goals that satisfy non-family stakeholders play an important role in enhancing organisational and hence family reputation (Zellweger et al 2013). Stakeholder identification also influences strategic priorities in small entrepreneurial firms. Wiklund and colleagues' (2003) research on small businesses suggests that non-economic concerns, and concern for employee well-being in particular, may outweigh potential financial outcomes in shaping attitudes towards company growth.

Managers who believe that the work atmosphere will improve due to growth tend to have a positive attitude toward growth. Conversely, those who expect that growth will deteriorate the work atmosphere tend to have a negative attitude toward growth. (Wiklund et al 2003, p266)

Concern with reputation, identity alignment and socio-emotional wealth impact on family firms' decision-making in ways that can impact significantly on employees. For example, Berrone and colleagues (2012) argue that concern with socio-emotional wealth engenders different approaches to the sharing of risk and benefits, particularly in businesses with high family involvement, where a greater willingness to shoulder

any costs of uncertainty are an acknowledgement that such risks are counterbalanced by non-economic benefits. Zellweger and colleagues (2013) argue that family businesses pursue non-financial objectives that are intended to satisfy non-family stakeholders to ensure a favourable organisational reputation.

Of course, not all family firms create value in the ways described above. Chrisman and colleagues (2012) argue that the crucial intervening variable is family essence – an indicator of a family's willingness to use its ability to influence firm behaviour in a particularistic fashion – so highlighting the scope for some employer choice in the value process. In addition, it is not only family businesses that focus on non-economic goals. An emphasis on creating value for a broader group of stakeholders is evident in some discussions of responsible business and in research on SME entrepreneurs (Hammann et al 2009). These authors explored 'the relationship between an SME executive's social responsibility and the value-creation of a firm, i.e. whether (personal) values create (economic) value' and found that by adopting management practices consistent with wider social responsibilities, firms enhanced perceived stakeholder perceptions, which in turn positively impacted financial performance. Notably, these authors highlighted the importance of value orientation towards employees, concluding that 'values can create additional value' (Hammann et al 2009, p37).

The literature focuses heavily on values or identity alignment as the key driver of family firms' distinctive approach to value. Pursuing family values in an organisational context is only possible, of course, because of ownership and corporate

governance (Carney 2005). We see the importance of patient capital in large firms and corporations in facilitating business models that focus on longer-term outcomes and the role of a broad stakeholder group in delivering these outcomes (Jacobs 2011, Lippert et al 2014). In family-owned firms, control over capital and the scope this gives for distinctive governance and strategy enables greater choice over business models, the ability to make decisions without recourse to a third party, and the ability to eschew maximising shareholder value on a short-term basis in favour of stewardship of the firm for the longer-term interests of both the firm and the owner family. Nor does this orientation harm performance. The UBS Report (2015) found that family- or founder-owned companies have significantly better performance than conventional public companies. Such stewardship emphasises company continuity, nurturing a community of employees and creating close connections with customers (Miller et al 2008). This can lead to a focus on broader conceptions of value rather than wealth-creation (Chrisman et al 2012).

Employee-owned businesses

We have outlined a number of alternative business models in terms of how these reflect business activities, business and labour market context, ownership and governance. What is clear from these examples of business models is that, notwithstanding important constraints, business models reflect choices, and the extent to which these choices reflect economic and non-economic objectives or prioritise shareholder or stakeholder (and especially employee/worker) interests varies enormously. Thinking about employee-owned (EO) businesses gives us an opportunity to develop further

some thoughts about prevalent tensions in the value process.

Interest in employee-owned businesses has seen a resurgence over the last decade, not least because there is some evidence to suggest that EO businesses have weathered better the global financial crisis and its ongoing impact and that EO businesses perform well both economically and in terms of workplace relations (Kruse 2016). On the face of it, one might expect that the tension between value-creation and value-capture would not exist in an employee-owned business given that employees are the shareholders, both creating value and, as owners, benefitting from value-capture. One might also expect, following from this, that the experience of working in employee-owned businesses would be more favourable for employees.

The reality is, however, somewhat more complex, a complexity that stems from the tensions between value-creation and capture in any context. Structural constraints still bear heavily on EO businesses – raising finance, accessing knowledge and staff, ensuring sustainability/succession, for example. EO businesses are heterogeneous, and encapsulate a variety of types of ownership and forms of governance. Having employees as shareholders does not remove the agency problem – it simply reconfigures it. Many, if not most, EO businesses rely on professional management and the relationship between professional management and other shareholders may differ little from conventionally owned firms. Given this, there is no necessary connection between employee ownership and associated forms of governance and the day-to-day experience of work in EO firms, and concerns over more intensive self-exploitation are present in

the literature. EO firms are not all innovative in involving employees (Pendleton et al 1998), and have been used in the US as vehicles to avoid unionisation (Wills and Lincoln 1999). Moreover, even in a context of employee ownership, EO businesses must still balance internal and external stakeholder interests and aspirations as the interests of employees and shareholders (including employee non-shareholders and shareholding ex- or non-employees in some businesses) compete with those of suppliers, customers and society. These tensions between stakeholder interests are often filled with temporal challenges – how much is owed or due to each stakeholder group at different points in time, a challenge that is developed further below. Overall, EO businesses are not always imbued with alternative values that depart from the centrality of creating shareholder value and, even where they are, these values exist in tension with business realities in market economies.

Take John Lewis Partnership (JLP) as an example (for an extensive recent exposition, see Salaman and Storey 2016). JLP operates in the highly competitive retail market, '*navigating the dual logics of mutualism*' (Salaman and Storey 2016, px) and playing out '*competing institutional logics*' (Salaman and Storey 2016, p16). All employees are partners in the business, although the business is owned collectively, so individual employees cannot realise their ownership stake. Their stake ends when their employment ceases, whether through voluntary exit, dismissal, redundancy or retirement. Professional management play a predominant role in the businesses, largely unhindered by partnership considerations. In formal terms, partnership governance holds the chairman accountable, who in turn

'Having employees as shareholders does not remove the agency problem – it simply reconfigures it.'

‘Forms of governance and leadership closely tied to value-capture may be destructive to value-creation and forms of compensation and reward tied to narrow financial values may do the same. But these are not inevitable outcomes, and significant scope for strategic choice exists.’

holds management accountable, yet many of the longstanding partnership structures that have influenced managerial action have arguably been diluted in recent years.

There is little evidence that the day-to-day work experience and organisation of the labour process are different from the realities of any large retailer, and pressures on extracting more from staff in terms of value-creation are evident. In its post-1990 expansion, JLP has been more successful in growing turnover than in growing profitability, creating pressures on whether surpluses support partner dividends for current partners, pensions provision for previous partners, or investment in expansion which may be in the interest of future partners. There are, therefore, very real tensions between the operation of JLP and the creation of value in JLP, past, present and future. While JLP has long enjoyed a very positive reputation for dealing fairly with suppliers, externalising parts of what were previously core parts of the business (such as distribution) has created tensions between extracting value (through tighter relationships with suppliers) and creating value, given that JLP’s competitive strategy is steeped in the importance of, and distinctiveness of, its customer service, which in turn is seen to be largely determined by the influence of partnership arrangements. Even in its espoused moral commitment to partners and stakeholders, JLP has to balance representing these interests in the short term against business (albeit not shareholder) pressures in both the short and long term.

None of this should be read as a criticism of JLP and its operating model – committed not to shareholder value but to partners’ happiness – or of the evident (though contested) benefits of

their model for employees. Instead we wish to reflect on the tensions between different parts of the value process even in what should be a favourable organisational context and to consider the dynamic nature of these tensions.

Drivers and consequences of variation and choice in business models

These business models exhibit variation in context, choices and consequences. Subject to varying product and labour market pressures, shaped in significant part by ownership characteristics and framed not just by regulation but by the wider activities of the state, business models are constructed in context to serve a hierarchy of interests and actors – often, however, in significant and visible tension with the interests of other relevant actors. In some versions, business models acknowledge the need for co-operation across stakeholders in value-creation which can impact directly on patterns of value-capture. In others, the discipline of the market is used punitively to deliver value for one stakeholder group at the expense of others in sharing in value-capture. Yet timescales are always important, and the externalities of business models that deliver only for shareholders may threaten their longer-term sustainability. Business models drive management practice that shapes both value-creation and capture, but not always in alignment. Forms of governance and leadership closely tied to value-capture may be destructive to value-creation and forms of compensation, and reward tied to narrow financial values may do the same. But these are not inevitable outcomes and significant scope for strategic choice exists in all of the above business models. Some of these issues are addressed further in Sections 5 and 6 below.

5 Value, governance and leadership

The preceding discussion has looked at the dominant model of maximising shareholder value and alternative stakeholder models through the lens of ‘who captures value’, but these discussions run in tandem with debates on organisational or corporate governance. Shareholder value models are heavily predicated on the need to discipline firm leadership – senior management as the agents of stakeholders – to act in ways that are consistent with shareholder interests, often in the short term. Corporate governance sets the parameters for organisational decision-making processes that create value and frame who is involved in these processes, and how.

Widely accepted international principles and protocols of corporate governance acknowledge the tensions between shareholders and other stakeholders in governance processes. The OECD’s principles of corporate governance clearly state that the *‘corporate governance framework should protect and facilitate the exercise of shareholders’ rights’* (OECD 2004, p18), while also highlighting that any corporate governance framework should take stakeholders into account and *‘should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises including performance-enhancing mechanisms for employee*

participation’ (OECD 2004, p21), access to information and opportunities to communicate concerns.

There is a well-developed literature on optimal governance arrangements (Aguilera and Jackson 2010) that reflects shareholder and stakeholder positions (Bottenberg et al 2017). Evidence on which form is superior, either in terms of business performance or other related outcomes such as innovation, continues to develop and to be contested. Shareholder-focused governance arrangements are considered beneficial in preventing less efficient self-interested managerial behaviour and focusing all attention to the single objective of profit maximisation.

Stakeholder-focused governance arrangements, however, can be associated with lower costs of control, better information dispersal, greater access to valuable knowledge and other tacit resources and the benefits of more constructive intra-firm relationships.

The task of organisational leadership is, of course, influenced by the nature and complexity of governance arrangements. A single focus on returns to shareholders and limited involvement by other stakeholders arguably reduces the complexity of leadership as a process. Involving multiple stakeholders and aligning their respective interests in delivering and distributing value may create greater leadership challenges. Yet the voluminous literature

‘Widely accepted international principles and protocols of corporate governance acknowledge the tensions between shareholders and other stakeholders in governance processes.’

on leadership largely takes the objectives of leadership – delivering value to shareholders and customers – as a given, and much research is instead devoted to the ‘how’ of leadership within an organisation, spawning an extensive debate on leaders’ values (Ogbonna and Harris 2000, Fu et al 2010), styles (Ogbonna and Harris 2000), competencies (Bolden and Gosling 2006), incentives and rewards (see Section 6 below).

Stakeholder governance creates particular leadership challenges but also creates opportunities for leadership to be exercised towards multiple objectives and by a broader group of actors. Our previous discussion of family firms echoes a wider research base on the role of values in how private owners/shareholders define and pursue strategic and operational objectives beyond profit maximisation. In this case and others, leaders’ values may drive and shape stakeholder-oriented value-creation strategies and management practices where corporate governance arrangements allow sufficient scope for the exercise of strategic choice.

As Kochan and Rubinstein (2000) have argued, however, *‘leadership and leadership values are a necessary but not sufficient condition for stakeholder firms to emerge’*, and stakeholder approaches may derive some of their benefits by tapping into distributed leadership assets and the value of non-management leadership. In their analysis of Saturn, Kochan and Rubinstein note the crucial importance of labour union leadership alongside company leadership in designing and delivering an effective stakeholder approach in a viable and competitive firm by harnessing employee voice, utilising employees’ skills and knowledge, and sharing risk and reward. The role of shared value needs to be stressed here: employee and union benefit was designed into Saturn’s strategy and governance from the outset, as is often the case in firms where mutual gains approaches are enshrined in formal partnership arrangements between employers, unions and employees (Johnstone and Wilkinson 2013). Even in this hospitable context for stakeholder engagement, it is clear that constant and ongoing adaptation

characterised leadership and governance at Saturn, and Kochan and Rubinstein highlight both the risks entailed in leadership exit and succession and the need for collective adaptation of the governance rules, structures, practices and approaches that went beyond a focus on individual leaders.

The legal and organisational foundation of corporate governance arrangements, variable over countries and firms, creates challenges in embedding stakeholder arrangements and in sustaining these in the context of leadership succession. As we will see in the following section, leadership and management accountabilities are more easily attached to formal measures of shareholder value than to multiple and conflicting stakeholder objectives, however perverse the outcomes of MSV (Salaman and Storey 2016).

6 Value, compensation and reward

It is unarguable that in any system of rewards and sanctions, particular behaviours are embedded, incentivised or discouraged. In the accounting/finance/economics literatures, the standard theory of executive compensation in terms of its ability to align executive interests with that of shareholders is agency theory. Agency theory suggests that it is necessary to establish various types of market and contractual mechanisms to motivate or monitor the agents so that they will better align their interests with those of the shareholders. One such mechanism, which was extremely popular in the 1980s, was the 'executive share option'. An IDS report for the High Pay Centre (2014) suggests that the Thatcher Government taxation policy further supported the rapid introduction of share option schemes in 1984, when options were exempted from income tax and subject only to capital gains tax. Drawing evidence from a 1995 House of Commons Employee Committee Report, 1980–94, IDS (2014) noted the growing popularity of other types of bonus schemes and executive incentive arrangements. In practice, share options proved to be imperfect as an incentive mechanism. For example, the directors of poorly performing firms could make significant profits from their options if there was a general rise in the stock market. And 'high-performing' executives could make no money if there was a dramatic general fall in the stock market. Moreover, on exercising their options, executive

interests would cease to be aligned with those of the shareholders.

In the years since 1980, the compensation packages of senior executives in large corporations have become extremely complex with some 'fixed' elements (for example salary) while many more are 'variable' (depending on an array of performance metrics) with a significant shift from fixed pay towards variable pay, partly in the form of shares. IDS (2014) found that salary plus benefits only made up just over a fifth of the total earnings of FTSE 100 lead executives in 2012/13, and that the maximum bonus for FTSE 100 lead executives increased from 50% of salary in 1998 to 180% in 2013.

IDS (2014) is concerned with whether there is a link between executive pay and performance. One of its overarching conclusions is that there is either no relationship, or, at best, a weak link between directors' pay and performance. While the IDS report found little correlation between executive pay and performance, it is important to consider what the impact of executive pay might be⁸ if it does not correlate with performance when considering longitudinal data.

Bennett and colleagues' (2017) analysis of a large cross-sectional data set of the performance goals employed in executive incentive contracts found that companies that just exceed their earnings per share (EPS) goals had higher abnormal accruals (management

of accounts) and lower research and development expenditures. In short, performance metrics might be achieved through failure to invest in the future and/or 'accounting management'. Other academic work has considered company pay structures within organisations. Park (2017) examined the impact of pay disparity between the chief executive officer (CEO) and the next layer of top management team executives. Specifically, Park (2017) found that companies with a greater pay disparity between the CEO and the top management team also participated in real activities manipulation (for example giving price discounts to temporarily increase sales, overproduction to report lower cost of goods sold, and reduction of discretionary expenditures such as research and development and staff training).

In summary, this section has provided a brief review of attempts to align executive pay with the interests of shareholders. Executive remuneration is incredibly complex and IDS (2014) found that executive pay over the 2000–2013 period far outstripped corporate performance. However, there is a relationship between what is described in the literature as 'earnings management' and executive pay. 'Earnings management' can either take the form of book-keeping entries and/or the manipulation of the real activities of companies in order to maximise performance metrics. The latter practice can too easily have a negative impact on the long-term prosperity of the organisation.

⁸ And executive pay is dwarfed by the compensation awarded to hedge fund managers. The *Guardian* newspaper reported that the world's top 25 hedge fund managers earned \$13 billion in 2015. This could be compared with the highest-paid banker, Jamie Dimon (JP Morgan CEO) who was paid \$27 million. Available at: www.theguardian.com/business/2016/may/10/hedge-fund-managers-salaries-billions-kenneth-griffin-james-simon

7 Summary

‘The key question, therefore, is what efforts can be made to address this value-creation/value-capture tension and to disincentivise value-destructive business models and management practices?’

There is a general consensus across a range of disciplinary perspectives that the value process represents a trajectory from human capital and its deployment to the creation of value. This is reflected in critical perspectives that contend that all value stems from labour, in HR debates on acquiring, developing, utilising and retaining human capital and also in the finance literature in research that suggests that capital markets themselves value human capital as an essential component of value-creation. Moreover, there is evidence from HR, finance and accounting research to suggest the better maintenance of employees, just like tangible fixed assets, will further improve value-creation.

Alongside these debates, however, is evidence that shareholder value pressures on value-capture leads to the adoption of business models where value-capture predominates, leading to a proliferation of and renewed emphasis on accounting metrics, often at individual as well as organisational level, that in turn drives management, employment and work practices that may impact negatively on human capital formation, job and employment quality in the short and the long term. Many of these practices are value-destructive at an organisational level.

Moreover, many of these practices impose significant externalities on individuals on whom organisational risk is heavily loaded; on families and communities disrupted by work insecurity, unstable work patterns and low pay; and on the wider society, for example,

in necessitating welfare transfers to address low or variable pay, reducing tax revenue opportunities, increasing health care demands and specifically health spend, as well as limiting the return on public investment in education, learning and skills and in driving or sustaining inequality, constraining growth at national level (Cingano 2014). The key question, therefore, is what efforts can be made to address this value-creation/value-capture tension and to disincentivise value-destructive business models and management practices? At least in part, what is valued is defined by what is measured and reported, and recent years have witnessed growing interest in HR metrics and accounting measures such as human capital or social accounting that more accurately reflect the role of humans and human capital in value-creation and, albeit implicitly, reflects the interests of other stakeholders in value-capture.

In Part 2, we review current and possible indicators of value-creation before considering their potential effectiveness alongside other forms of intervention that might help negate the negative consequences of a singular pursuit of shareholder value. We conclude Part 2 with a summary of findings from both reports and implications for theory and practice.

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